

# *The Commonwealth of Massachusetts*

## *Department of Revenue*

*Leverett Saltonstall Building,*

*100 Cambridge Street, Boston 02204*

IRA A. JACKSON

COMMISSIONER

KATHLEEN KING PARKER, CHIEF

RULINGS AND REGULATIONS

April 25, 1985

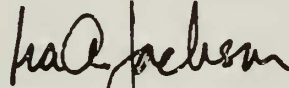
("Company") is a small, inactive Massachusetts business corporation which sold all of its machinery and assets in 1980. The cash proceeds were used to buy Massachusetts Municipal Bonds, which are held in an account in the name of the Company, c/o You inquire whether the eventual receipt by the individual shareholders of the interest from these bonds is includable in Massachusetts gross income.

Massachusetts gross income is defined in Massachusetts General Laws Chapter 62, Section 2 as the federal gross income with certain modifications. When an individual holds Massachusetts Municipal Bonds, interest received is not includable in both federal and Massachusetts gross income. I.R.C. § 103; G.L. c. 62, §2(a)(1)(A). However, when a business corporation holds the bonds, distributions made by the corporation are taxable dividends. Dividends are includable in both Massachusetts and federal gross income. "Dividend" is defined in Massachusetts as it is in I.R.C. § 316 as "any distribution of property [including money] made by a corporation to its shareholders" out of either current or accumulated earnings and profits. Corporate earnings and profits include interest received on Massachusetts Municipal Bonds. U.S. Treasury Regulation § 1.312-6(b).

Because the Company holds these bonds, the interest accrues to it and is included in the computation of its earnings and profits. A distribution out of earnings and profits (derived from the bond interest) is a dividend. As stated by U.S. Treas. Reg. § 1.312-6(b), "Interest on state bonds...is taxable to the same extent as other dividends when distributed to shareholders in the form of dividends."

Therefore, Massachusetts Municipal Bond interest earned by a Massachusetts business corporation and distributed to its shareholders in the form of dividends is includable in Massachusetts gross income of the shareholders. As a dividend, the income is classified as Part A gross income. G.L. c. 62, § 2(b)(1).

Very truly yours,

A handwritten signature in dark ink, appearing to read "Paul J. Jackson", written in a cursive style.

Commissioner of Revenue

IAJ:JA:loc

LR 85-50